



# CALIFORNIA Economic Indicators

March–April 2006

## Unexpected Job Loss

Unseasonably wet weather and cooling housing markets lead to job losses in March.

### REVIEW OF RECENT ECONOMIC DEVELOPMENTS

Concerns over the risks for the California economy posed by cooling housing markets were heightened by an unusually long rainy season. It is impossible to judge at this time whether March's employment setback was merely the result of atypical weather or a sign of slowing due to subdued home construction.

### Employment

After nine consecutive monthly job gains averaging over 26,000 per month, California lost 10,800 jobs in March. The loss was concentrated in construction, where employment fell by 9,400. Heavy rains early in the month very likely played a role. Trade, transportation, and utilities—another sector that can be affected by bad weather—saw employment fall by 4,100. In contrast, lingering winter weather extended the ski season, which helped boost the leisure and hospitality sector, where employment rose by 6,500.

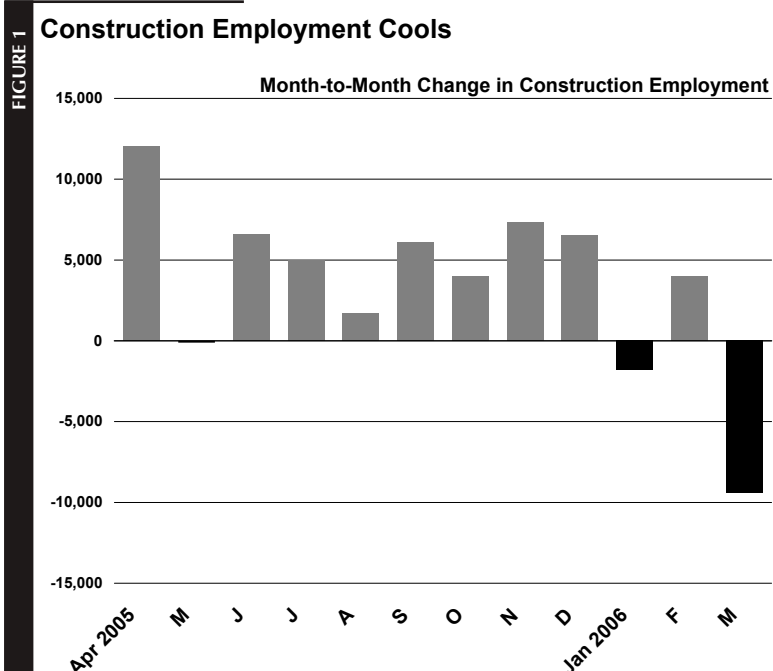
The drop in construction employment is of concern given the sector's disproportionate contribution to job growth over the past several years. Home construction permitting cooled significantly during the final months of 2005 without a corresponding slowdown in construction employment. It is unclear whether the drop in March was a delayed reaction to the permitting slowdown or the result of unseasonably wet weather. The rains were even heavier in early April, so an answer may not be apparent until June when the May employment report is released.

Unlike in February, when all 11 major industry sectors added jobs, only four gained jobs in March—leisure and hospitality with its gain of 6,500, information with a gain of 3,300, financial activity with 1,500, and natural resources and mining with 100. Beyond the job losses in construction and trade, transportation and utilities, 3,100 jobs were lost in professional and businesses services, 2,200 in government, 2,100 in other services, 900 in manufacturing, and 400 in education and health services.

On a year-over-year basis, California labor markets gained jobs faster than the nation. From March 2005 to March 2006, nonfarm payroll employment grew by 262,100, or 1.8 percent, while in the nation as a

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whole, jobs grew by only 1.6 percent. Nine of California's major industry sectors gained jobs over the 12 months ending in March 2006. Professional and business services added 65,400, leisure and hospitality, 50,300, construction, 41,900, trade, transportation, and utilities, 40,700, educational and health services, 30,100, financial activities, 23,500, government, 19,100, other services, 8,800, and natural resources and mining, 1,100. Only two industries lost jobs, manufacturing and information, losing 11,500 and 7,300 respectively.

### Maintaining a low unemployment rate

California's unemployment rate dropped two-tens of a percentage point in March, returning to the 4.8-percent rate it was in January, which was the lowest rate since February 2001. Civilian unemployment experienced a large drop, 31,400 persons, while employment grew 58,300. The state's unemployment rate a year ago was 5.5 percent. In a reversal from 2005, the growth of civilian employment during each of the first three months of 2006 lagged behind the growth of nonfarm employment.

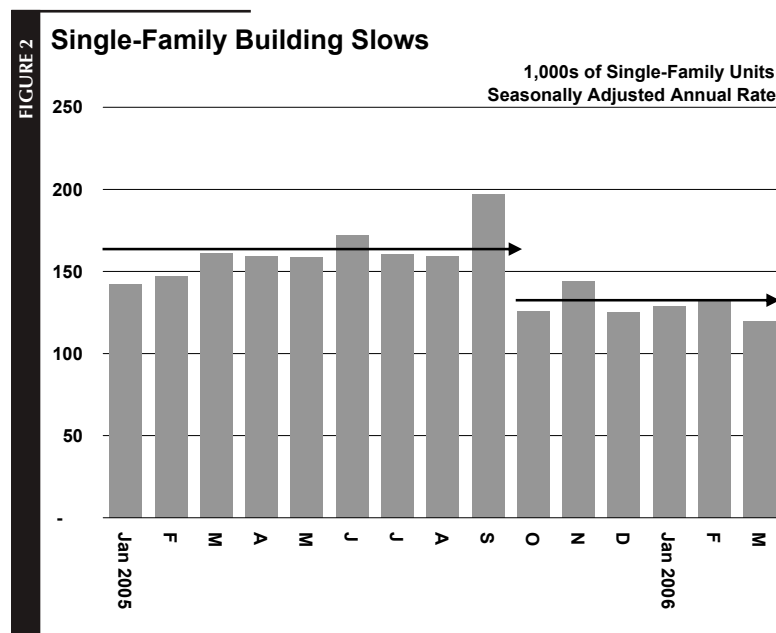
## Building Activity

### Multi-family sector boosted home building in first quarter of 2006

After a sharp fall-off in home building at the end of 2005, residential construction regained some strength in the first quarter of 2006—based entirely on resurgent multi-family construction. The seasonally adjusted annual pace of multi-family permitting weakened considerably during the final three months of 2005 but then accelerated briskly during the first three months of 2006. Conversely, single-family home construction during the first quarter of 2006 fell over 3 percent from the final quarter of 2005. Permitting for single-family home construction averaged 127,000 units during the first quarter on a seasonally adjusted annual rate basis—the slowest pace since the second quarter of 2002. Total residential construction permitting during the first quarter of 2006 rose 12 percent from the last quarter of 2005 but was down 7 percent from a year earlier.

### Offices dominate commercial building growth at the start of 2006

In contrast to home building activity, business construction accelerated strongly at the beginning of 2006. Despite a string of alternating monthly gains and losses, commercial construction during the first three months of 2006 was 37 percent greater than during the same months of 2005. Strong gains were made in all building categories, with the exception of the small service station sector. Office construction led the growth, more than doubling the activity posted a year earlier, and accounting for 38 percent of all commercial construction growth during the first quarter.



## Real Estate

### Home prices and sales improve

Greater price stability was evident in March, when California home prices recovered from a slight dip in February. The median price of existing single-family homes sold in March was \$561,350—the highest median since August 2005 and within the \$540,000-to-\$570,000 range that California's median has been in since June 2005. The March median price was 13.1 percent higher than a year ago. The pace of annual price appreciation was strong, but slowing. If prices remain stable, or even rise modestly, the pace of year-over-year gains will gradually decelerate until the anniversary of the end of the last strong run-up on prices in June 2005.

The pace of home sales also improved in March—the second consecutive month-over improvement. However, at a seasonally adjusted annual rate of 539,170 units, sales of existing, single-family homes were 15.1 percent lower than a year earlier. Overall, the pace of home sales during the first quarter of 2006 is down 18 percent from the same months of 2005.

## ■ CALIFORNIA EXPORTS

### More Exports

International economic strength—in Asia in particular—provided a modest lift to California exports at the beginning of 2006. Shipments of California-made goods to other countries in January rose 5.5 percent above the January 2005 level. This lagged behind the 6.2-percent growth achieved in 2005.

Exports of electric machinery—which is dominated by integrated circuits and semiconductors—made the largest gain, accounting for over 30 percent of the overall export increase. Exports of industrial machinery, which includes computers, fell 6 from January 2005.

Among export destinations, Japan was responsible for the most dramatic increase in January. Exports there were up nearly 23 percent from a year ago, and this gain accounted for 43 percent of the total increase in exports. In 2005, California exports to Japan increased just 1.3 percent. Mainland China continued to be a destination of increasing importance to California. Exports to China rose nearly 23 percent from a year ago, accounting for nearly 23 percent of the total gain.

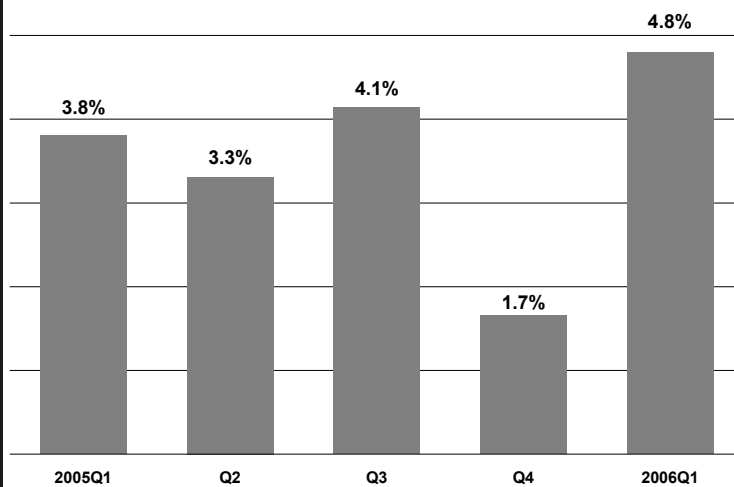
## ECONOMIC FORECAST UPDATE

*The following forecast is adapted from the May Revision of the Governor's 2006-07 Budget and is based on information available as of April 2006.*

Rebounding from the effects of last year's hurricanes, the national economy grew at its fastest pace in two and a half years in the first quarter of 2006. A pickup in consumer spending, a snapback in business investment in equipment and software, and a jump in defense spending led the way. Labor markets strengthened and tightened with the economy's renewed growth. The average monthly job gain in the first quarter of 2006 was bigger than the average monthly gain in 2005, and the unemployment rate fell to a level not seen since the spring of 2001. In addition, manufacturing remained strong, particularly high-tech manufacturing, and residential construction increased slightly, even though home sales continued to slide. The Federal Reserve tightened policy two times during the quarter, but hinted that their long string of tightening moves might be near completion. The generally good performance of the national economy in the first quarter did not, however, reflect the run-up in oil prices and the dramatic increase in gasoline prices that occurred between mid-March and the end of April. The effects of higher energy prices will be seen in the economic statistics released in the coming months.

FIGURE 3

### Gross Domestic Product Change from the Previous Quarter Annualized Percent

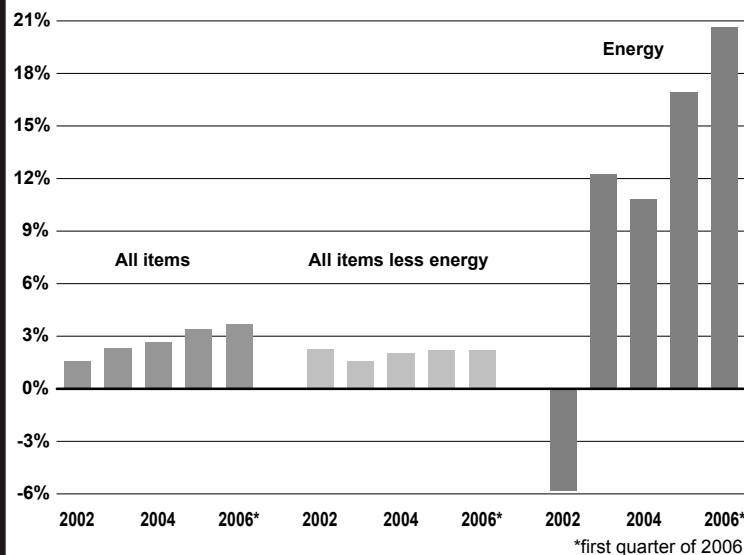


California's economy continued to create jobs at a good clip in the first two months of 2006, but a rainy March brought the first decline in employment in ten months. Even so, the state's unemployment rate fell to a five-year low as labor markets continued to tighten. Home building and home sales continued to cool in the first quarter, and home price appreciation moderated further. The value of nonresidential permits grew strongly, however, and office and industrial vacancy rates continued to either fall or remain at low levels. The state's tourism industry improved, as evidenced by higher hotel/motel occupancy and room rates. Personal income growth remained solid in the fourth quarter of 2005. Exports of made-in-California merchandise and port activity remained strong in the first two months of 2006. The San Francisco Bay Area economy continued to improve in the first quarter.

The national and California economies continued to expand solidly in the first quarter of 2006 despite higher energy costs and slowing residential real estate and construction. Those headwinds picked up in recent months and will likely slow the growth of both economies as the year proceeds. The risks to the outlook have increased.

FIGURE 4

### U.S. Consumer Inflation Annual Percent Change in CPI-U



## The Nation

Adjusted for inflation, national economic output (real GDP) grew by 4.8 percent at an annualized rate in the first quarter of 2006, a considerable improvement over its 1.7 percent gain in the fourth quarter of 2005 (Figure 3). A turnaround in consumer spending on motor vehicles and parts accounted for most of the improved growth. This spending fell sharply in the fourth quarter of 2005 before bouncing about a third of the way back in the first quarter of 2006.

An acceleration in business investment in equipment and software-transportation and information processing equipment, in particular-also was a significant contributor to the increase in real GDP growth. Residential construction's contribution to real GDP growth, however, fell slightly in the first quarter, but investment in nonresidential structures contributed

to the increase in real GDP growth. A swing in inventory investment, from a sizeable accumulation in the fourth quarter of 2005 to a drawdown in the first quarter of 2006, limited the gain in output growth considerably.

Net exports (exports minus imports) fell again in the first quarter of 2006. Exports grew quickly, but imports even more so. The deterioration of net exports was less in the most recent quarter than in the fourth quarter of 2005, however.

A swing in national defense spending was the third major contributor to the improvement in real GDP in the first quarter. This spending fell by \$11.6 billion in the fourth quarter of 2005 before rising by \$12.2 billion in the most recent quarter.

The gain in real GDP growth was reflected in the nation's labor markets. Nonfarm payroll employment increased for the thirty-first consecutive month in March, and the average gain in the first three months of this year, 197,000, exceeded the average monthly gain for all of 2005-165,000. Job gains continue to be widespread across major industry sectors. The national unemployment rate has trended downward for almost three years and was 4.7 percent in March. Other than in January, when the unemployment rate was also 4.7 percent, that was the lowest rate since July 2001.

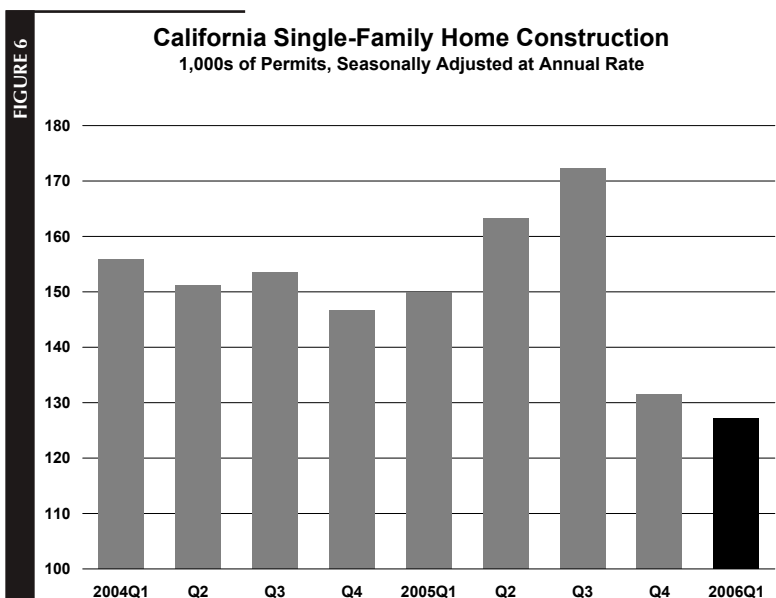
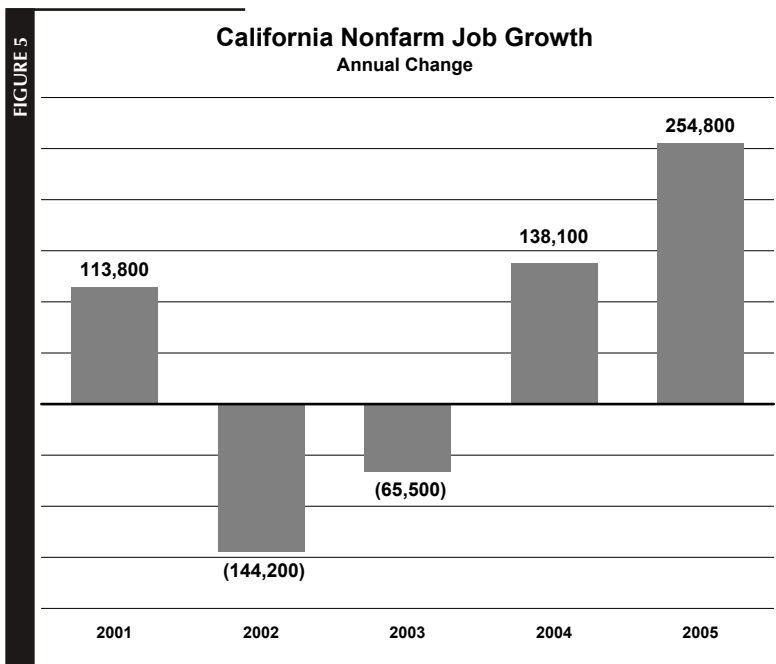
Both new and existing home sales slowed in the first quarter of 2006 on a seasonally adjusted basis. In fact, new home sales have trended downward since reaching a record high in July 2005 and existing home sales 2since June 2005. Inventories of unsold houses-both new and existing-have increased.

Rising energy prices were the paramount concern of Americans in March and April. The average retail price for regular gasoline rose by about 65 cents per gallon in the nation over the two months, and the spot price for oil by about \$14 a barrel. The consumer price index for energy was 21 percent higher in the first quarter of 2006 than in the first quarter of 2005 (Figure 4). Soaring energy prices have pushed up general inflation measures and slowed economic growth in the last year, but they have not appreciably affected the prices consumers pay for other goods and services. For example, the consumer price index that strips away energy prices was 2.2 percent higher in first quarter of 2006 than a year earlier-the same percentage increase as in 2005 as a whole (Figure 4). The rate in the first quarter of 2006 does not reflect the increase in energy prices in April but coming quarters may.

## California

Statistics released since January put in sharper focus the improvement in the California economy during 2005. The annual benchmark revision of employment statistics revealed that more jobs were created in the state during the year than initially thought-255,000, the best gain in five years (Figure 5). Nine out of the 11 major industry sectors saw employment grow in 2005. The state's unemployment rate has trended downward since October 2003, when it was 6.9 percent, to 4.8 percent in January 2006 and March 2006, the lowest rate since February 2001.

California personal income grew by 6 percent in 2005. California's personal income growth has outstripped the nation's as a whole since the first quarter of 2004. Taxable sales were 6.4 percent





higher in the first half of 2005 than in the first half of 2004—in line with personal income growth in the state in the first half of 2005, but not as strong as the growth in taxable sales in the first half of 2004.

Made-in-California exports grew by 6.2 percent to \$116.8 billion in 2005, just shy of the peak level reached in 2000. High-tech exports fell slightly in 2005, but exports of transportation products, miscellaneous manufactured products, agricultural products, and food and kindred products all grew at double-digit rates and chemical exports just slightly less than that. Leading export destinations, in order, were Mexico, Japan, Canada, Mainland China, South Korea, Taiwan, the United Kingdom, Hong Kong, and Germany. State exports expanded to all these markets, except the United Kingdom and Hong Kong. California deliveries to Germany grew by 16 percent and to Mainland China by 15 percent, the biggest gains among the state's major trading partners. Made-in-California exports grew by 6.7 percent in the first two months of 2006.

California residential real estate markets and residential construction began slowing in the second half of 2005 and continued to slow in the first quarter of 2006. The number of residential units permitted fell sharply in the fourth quarter of 2005 and slightly in the first quarter of 2006 (Figure 6). Except for a small gain in August 2005, total home sales have been down from a year earlier in every month since March 2005. Inventories of unsold houses, while not at worrisome levels, have grown over the last four to six months. Home price appreciation has slowed in the last six months, but year-over-year price gains for resale homes remain in double-digits, while those for new homes have dipped into the single digits.

A much welcomed development in 2005 was improved job growth in the San Francisco Bay Area. As recently as August 2004, nonfarm payroll employment was below its year-earlier level in the Bay Area, while it was up 1.6 percent in Southern California. In March 2006, nonfarm payroll employment in the Bay Area was 1.5 percent above its year-ago level, not much different from Southern California, where it was up by 1.6 percent.

## The Forecast

Higher energy prices, somewhat higher interest rates, and further slowing of residential construction and real estate markets will slow economic growth in both the nation and California in 2006 and 2007. A rebound in consumer spending in the first quarter of 2006 fueled strong output growth in the nation, but that will be difficult to duplicate in the second quarter. The strong growth in the first quarter had more to do with weakness in the national economy in the fourth quarter of 2005—the result of the hurricanes—than strength in the first quarter of 2006. For example, motor vehicle sales were at an annualized level of 17.6 million in January 2006—the highest rate since July 2005. Since January, however, sales of motor vehicles have been quite lackluster—16.6 million in February and March and 16.7 million in April. With the April level below the first quarter average, it will be difficult for second-quarter sales to top the first-quarter level, even if gasoline prices had not increased so much in March and April. So, it is unlikely that vehicle sales will contribute to national economic growth in the second quarter. Monthly economic statistics released in May and June will likely reflect to a greater extent the sharp run-up in energy prices in March and April.

FIGURE 7

### Selected U.S. Economic Indicators

	2005 (Est.)	2006 (Projected)	2007 (Projected)
Real gross domestic product, (2000 dollar) (Percent change)	3.5	3.3	3.0
Personal consumption expenditures	3.5	3.3	3.0
Gross private domestic investment	6.1	6.2	4.2
Government purchases of goods and services	1.8	1.4	1.7
GDP deflator (2000=100) (Percent change)	2.8	2.8	1.9
GDP, (Current dollar) (Percent change)	6.4	6.2	4.9
Federal funds rate (Percent)	3.2	5.0	5.0
Personal income (Percent change)	5.5	6.1	5.6
Corporate profits before taxes (Percent change)	35.8	13.5	(0.3)
Nonfarm wage and salary employment (Millions)	133.5	135.5	137.5
(Percent change)	1.5	1.5	1.5
Unemployment rate (Percent)	5.1	4.7	4.8
Housing starts (Millions)	2.1	1.9	1.8
(Percent change)	6.3	(8.1)	(6.2)
New car and light truck sales (Millions)	16.9	16.7	16.8
(Percent change)	0.0	(1.2)	0.9
Consumer price index (1982-84=100)	195.3	200.9	205.6
(Percent change)	3.4	2.9	2.4

Forecast based on data available as of April 2006.  
Percent changes calculated from unrounded data.

Real U.S. GDP will grow by 3.3 percent in 2006 and 3.0 percent in 2007, down from 3.5 percent in 2005, but still sufficient to allow for job growth in both years (Figure 7). Housing starts will fall in 2006 and again in 2007. Corporate profits will be strong again in 2006 but flat in 2007.

On an annual average basis, California personal income will grow by 6.2 percent in 2006 and 5.8 percent in 2007 (Figure 8). California job growth will fall slightly to 1.6 percent in 2006 and 1.5 percent in 2007. On an annual average basis, construction employment will increase slightly in 2006-although falling during the year-and fall in 2007. Housing permits will decline by 9.1 percent in 2006 and 7.8 percent in 2007.

FIGURE 8

### Selected California Economic Indicators

	2005	Percent change	Projected			
			2006	Percent change	2007	Percent change
Personal income (\$ billions)	1,341.7	6.3%	1,425.1	6.2%	1,507.2	5.8%
Nonfarm W&S employment (thousands)	14,798.3	1.8%	15,029.0	1.6%	15,255.3	1.5%
Natural resources and mining	23.4	2.4%	24.0	2.5%	24.5	2.2%
Construction	905.7	6.5%	913.2	0.8%	884.5	-3.1%
Manufacturing	1,510.9	-1.4%	1,517.4	0.4%	1,530.2	0.8%
High technology	395.9	-0.7%	399.8	1.0%	403.9	1.0%
Trade, transportation, & utilities	2,817.6	2.3%	2,867.6	1.8%	2,917.8	1.7%
Information	472.6	-2.0%	465.0	-1.6%	476.8	2.5%
High technology	206.6	-1.2%	206.1	-0.2%	213.0	3.4%
Financial activities	930.3	3.1%	950.5	2.2%	947.7	-0.3%
Professional and business services	2,154.2	3.3%	2,220.5	3.1%	2,296.3	3.4%
High technology	270.2	3.3%	281.0	4.0%	297.0	5.7%
Educational and health services	1,586.2	1.7%	1,610.3	1.5%	1,642.4	2.0%
Leisure and hospitality	1,475.4	2.5%	1,513.2	2.6%	1,552.2	2.6%
Other services	508.0	0.8%	516.1	1.6%	527.5	2.2%
Government	2,414.0	0.8%	2,431.3	0.7%	2,455.4	1.0%
Unemployment rate	5.4%		4.9%		4.9%	
Housing permits (thousands of units)	208.9	-1.9%	190.0	-9.1%	175.1	-7.8%
Consumer price index (1982-84=100)	202.6	3.7%	209.8	3.6%	215.8	2.9%

Forecast based on data available as of April 2006.

Percent changes calculated from unrounded data.

## Select Indicators

	2005		2006			Year-Over % Change
	Mar	Dec	Jan	Feb	Mar	
<b>EMPLOYMENT (Seasonally adjusted)</b>						
Civilian employment (000)	16,635	16,912	16,855	16,816	16,874	1.4%
Unemployment (000)	967	911	859	879	848	-12.4%
Unemployment rate	5.5	5.1	4.8	5.0	4.8	--
Nonagricultural wage and salary employment (000) a/	14,694.2	14,918.9	14,935.7	14,967.1	14,956.3	1.8%
Goods-producing industries	2,423.4	2,467.6	2,460.6	2,465.1	2,454.9	1.3%
Natural resources and mining	23.1	23.7	24.0	24.1	24.2	4.8%
Construction	884.2	933.3	931.5	935.5	926.1	4.7%
Manufacturing	1,516.1	1,510.6	1,505.1	1,505.5	1,504.6	-0.8%
Service-providing industries	12,270.8	12,451.3	12,475.1	12,502.0	12,501.4	1.9%
Trade, transportation, and utilities	2,798.1	2,830.3	2,842.5	2,842.9	2,838.8	1.5%
Information	480.6	472.9	466.0	470.0	473.3	-1.5%
Financial activities	918.3	937.8	939.0	940.3	941.8	2.6%
Professional and business services	2,127.2	2,177.9	2,185.7	2,195.7	2,192.6	3.1%
Educational and health services	1,573.2	1,597.4	1,599.0	1,603.7	1,603.3	1.9%
Leisure and hospitality	1,460.7	1,492.9	1,501.3	1,504.5	1,511.0	3.4%
Other services	506.7	516.6	515.9	517.6	515.5	1.7%
Government	2,406.0	2,425.5	2,425.7	2,427.3	2,425.1	0.8%
High-technology industries b/	870.9	872.7	868.2	871.5	870.8	0.0%
Computer and electronic products manufacturing	322.6	321.4	318.9	319.5	319.8	-0.9%
Aerospace products and parts manufacturing	73.0	73.0	72.6	72.9	72.5	-0.7%
Software publishers	41.5	41.6	41.4	41.4	41.6	0.2%
Telecommunications	118.2	112.1	111.8	112.9	111.6	-5.6%
Internet service providers	48.6	50.4	50.1	50.3	50.8	4.5%
Computer systems design	170.5	177.2	175.8	176.6	176.3	3.4%
Scientific research and development	96.5	97.0	97.6	97.9	98.2	1.8%
<b>HOURS AND EARNINGS IN MANUFACTURING (Not seasonally adjusted)</b>						
Average weekly hours	39.9	39.8	39.9	40.1	40.1	0.5%
Average weekly earnings	\$622.84	\$631.23	\$632.02	\$635.18	\$634.38	1.9%
Average hourly earnings	\$15.61	\$15.86	\$15.84	\$15.84	\$15.82	1.3%
<b>CONSUMER PRICE INDEX (1982-84=100) (Not seasonally adjusted)</b>						
All Urban Consumers Series						
California Average	n.a.	204.2	n.a.	207.8	n.a.	--
San Francisco CMSA	n.a.	203.4	n.a.	207.1	n.a.	--
Los Angeles CMSA	199.2	203.9	206.0	207.5	208.5	4.7%
Urban Wage Earners and Clerical Workers Series						
California Average	n.a.	197.1	n.a.	200.4	n.a.	--
San Francisco CMSA	n.a.	199.3	n.a.	202.5	n.a.	--
Los Angeles CMSA	192.1	196.5	198.3	199.9	200.8	4.5%
<b>CONSTRUCTION</b>						
Private residential housing units authorized (000) c/	227	160	174	221	184	-19.0%
Single units	161	125	129	133	119	-25.9%
Multiple units	65	35	45	87	64	-1.9%
Residential building authorized valuation (millions) d/	49,226	\$39,330	\$40,607	\$48,497	\$41,044	-16.6%
Nonresidential building authorized valuation (millions) d/	17,388	\$18,709	\$25,427	\$20,909	\$22,606	30.0%
Nonresidential building authorized valuation (millions) e/	1,324	1,506	1,759	1,444	1,716	29.6%
Commercial	423	504	717	424	611	44.5%
Industrial	85	112	130	113	118	39.3%
Other	291	338	249	286	337	15.9%
Alterations and additions	526	552	663	621	650	23.5%
<b>AUTO SALES (Seasonally adjusted)</b>						
New auto registrations (number)	153,346	138,073	157,834	152,515	151,400	-1.3%

a/ The wage and salary employment information is based on the new North American Industry Classification System (NAICS).

b/ Not seasonally adjusted

c/ Seasonally adjusted at annual rate

d/ Seasonally adjusted

e/ Not seasonally adjusted

n.a. Not available



## Select Indicators *Continued*

### VACANCY RATES FOR FIRST QUARTER 2006 (Percent)

	Office		Office		Office		Industrial	
	Downtown		Suburban		Metropolitan			
	1Q06	1Q05	1Q06	1Q05	1Q06	1Q05	1Q06	1Q05
Northern and Central California:								
Oakland	15.0	14.2	13.1	15.8	13.5	15.5	n.a.	n.a.
Sacramento	13.3	13.3	13.4	13.8	13.4	13.7	11.0	14.4
San Francisco	11.5	13.6	17.3	22.5	13.3	16.4	11.6	14.0
San Jose	21.8	20.3	12.8	16.3	14.8	17.2	n.a.	n.a.
Southern California:								
Los Angeles Metro	14.6	15.5	10.3	12.4	11.0	12.9	7.2	7.6
Orange County	n.a.	n.a.	6.1	9.3	6.1	9.3	7.5	7.6
San Diego	10.1	8.6	8.9	10.0	9.1	9.7	9.4	10.7
Ventura County	n.a.	n.a.	10.1	8.7	10.1	8.7	n.a.	n.a.
National Average	12.3	13.8	14.3	16.3	13.6	15.4	9.9	10.7

### FOREIGN TRADE THROUGH CALIFORNIA

#### SALES OF EXISTING SINGLE-FAMILY HOMES

		Median Price	Units (SAAR)
2002	Jan	\$287,076	584,251
	Feb	294,865	610,379
	Mar	305,838	586,225
	Apr	317,121	643,026
	May	319,591	620,301
	Jun	324,638	533,840
	Jul	321,903	540,797
	Aug	334,273	562,783
	Sep	322,452	493,803
	Oct	324,672	579,240
	Nov	328,440	542,121
	Dec	338,836	573,786
2003	Jan	\$336,212	584,600
	Feb	326,645	566,890
	Mar	351,134	567,609
	Apr	364,040	583,333
	May	367,627	572,265
	Jun	374,535	572,128
	Jul	381,938	595,858
	Aug	406,142	645,721
	Sep	384,686	631,881
	Oct	379,119	636,688
	Nov	384,472	627,190
	Dec	401,724	637,078
2004	Jan	\$404,463	615,659
	Feb	391,550	589,220
	Mar	428,060	590,220
	Apr	452,680	640,710
	May	463,320	632,380
	Jun	468,050	633,660
	Jul	462,145	639,910
	Aug	473,520	591,150
	Sep	463,630	626,210
	Oct	459,530	639,571
	Nov	471,980	652,340
	Dec	474,270	645,860
2005	Jan	\$484,580	659,410
	Feb	470,920	608,160
	Mar	496,550	634,700
	Apr	509,630	658,060
	May	522,590	618,920
	Jun	543,120	656,310
	Jul	540,900	647,910
	Aug	568,890	632,240
	Sep	543,980	650,780
	Oct	538,770	621,530
	Nov	548,680	579,560
	Dec	548,640	531,910
2006	Jan	\$551,300	500,470
	Feb	535,470	513,745
	Mar	561,350	539,170

#### PORTS

Exports	Imports
(\$ millions)	
\$8,688	\$15,517
8,429	15,768
9,945	16,318
9,274	17,807
9,814	17,568
9,984	18,988
9,335	18,998
9,948	19,686
9,286	19,478
8,794	18,753
9,046	20,522
8,797	19,060
\$8,408	\$17,588
8,423	16,359
9,784	18,789
9,158	19,151
9,090	18,537
9,743	19,774
9,604	20,743
9,626	19,846
8,968	21,060
10,341	23,021
9,969	21,320
10,437	20,528
\$9,062	\$19,996
9,536	18,011
11,420	22,589
10,249	21,722
10,460	21,760
10,481	23,971
10,388	24,162
10,118	24,127
10,446	23,974
10,460	25,279
9,792	25,769
10,628	22,863
\$9,405	\$22,776
9,756	21,738
11,390	23,735
10,356	24,337
10,882	24,774
11,108	26,153
10,828	26,452
11,166	26,452
10,825	28,012
11,371	28,847
11,194	27,030
11,709	26,024
\$10,848	\$25,555
10,791	23,004
13,336	27,722

#### DOD PRIME CONTRACTS a/

	\$ millions	% of U.S.
1993-94	22,573	20.5%
1994-95	18,277	16.8%
1995-96	18,230	16.7%
1996-97	18,477	17.3%
1997-98	17,401	15.9%
1998-99	17,372	15.1%
1999-00	18,100	14.7%
2000-01	19,939	14.7%
2001-02	23,816	15.0%
2002-03	28,681	15.0%
2003-04	27,875	13.7%
2004-05	31,065	13.1%

a/ U.S. fiscal year: October through September

n.a. Not available

## Leading Indicators/<sup>a</sup>

		Manufacturing		Unemployment	New	Housing Unit
		Overtime	Average	Insurance	Business	Authorizations
		Hours	Weekly Hours	Initial Claims	Incorporations	(Thousands)
2001	Jan	4.1	39.9	47,433	7,556	205.3
	Feb	4.2	40.2	51,754	6,436	136.7
	Mar	4.0	39.9	53,976	6,574	143.7
	Apr	3.5	39.5	52,045	6,239	153.3
	May	3.8	39.6	56,344	6,757	152.1
	Jun	3.8	39.3	54,585	6,425	147.4
	Jul	3.7	39.5	55,086	6,532	129.3
	Aug	3.9	39.6	57,220	7,243	162.6
	Sep	3.9	39.7	59,321	5,893	113.5
	Oct	3.8	39.4	62,955	7,002	141.2
	Nov	3.6	39.0	58,250	7,315	139.3
	Dec	3.7	39.4	49,212	6,912	161.4
2002	Jan	3.8	39.0	67,463	7,283	160.6
	Feb	3.9	39.4	56,462	6,867	163.3
	Mar	4.1	39.9	61,127	7,381	143.1
	Apr	4.1	39.9	62,452	7,348	163.4
	May	4.1	39.6	61,029	8,597	157.0
	Jun	4.1	39.9	58,896	6,988	149.1
	Jul	3.9	39.3	61,909	7,252	179.3
	Aug	4.0	39.8	61,152	7,552	169.3
	Sep	3.9	39.9	60,528	7,285	182.1
	Oct	3.9	39.6	61,567	8,053	206.0
	Nov	3.8	39.6	59,053	7,545	187.2
	Dec	3.9	39.8	60,417	7,736	150.2
2003	Jan	3.9	39.6	61,430	7,430	198.2
	Feb	4.0	39.8	59,637	8,677	253.2
	Mar	3.7	39.7	59,723	7,242	180.1
	Apr	3.7	39.7	63,614	7,875	189.7
	May	3.7	39.8	61,106	7,864	210.0
	Jun	3.7	39.9	60,771	7,873	175.8
	Jul	3.8	39.5	60,213	8,026	196.8
	Aug	3.8	39.5	57,664	7,045	183.3
	Sep	3.9	39.5	57,320	8,267	189.4
	Oct	3.9	39.6	58,650	7,952	213.2
	Nov	4.0	40.1	54,900	7,474	185.4
	Dec	3.9	39.6	52,281	8,424	192.2
2004	Jan	4.1	40.0	51,052	8,086	204.0
	Feb	4.1	40.2	51,195	8,715	209.6
	Mar	4.2	40.2	49,142	8,573	223.2
	Apr	4.4	40.0	49,413	8,428	208.6
	May	4.5	40.3	46,621	8,291	201.5
	Jun	4.2	39.9	49,874	8,905	219.9
	Jul	4.4	40.2	48,251	8,376	200.1
	Aug	4.2	40.1	47,573	8,310	216.8
	Sep	4.0	39.3	46,799	8,571	221.2
	Oct	4.3	39.8	44,947	7,704	178.4
	Nov	4.3	39.8	47,368	8,979	250.0
	Dec	4.4	39.8	49,438	9,263	221.1
2005	Jan	4.5	40.3	50,966	5,869	192.8
	Feb	4.5	40.0	46,024	9,147	201.2
	Mar	4.4	40.0	45,384	9,489	226.7
	Apr	4.5	40.1	44,498	9,451	208.8
	May	4.4	39.9	43,494	9,811	217.6
	Jun	4.3	39.6	42,711	9,419	231.2
	Jul	4.3	39.9	40,706	8,778	226.1
	Aug	4.6	39.9	40,975	9,226	208.3
	Sep	4.4	40.0	40,597	8,934	278.7
	Oct	4.6	40.5	37,628	8,133	156.3
	Nov	4.2	39.7	39,949	9,064	201.0
	Dec	4.2	39.3	42,641	9,394	160.2
2006	Jan	4.2	40.5	42,846	n.a.	173.7
	Feb	4.4	40.4	38,238	n.a.	220.5
	Mar	4.2	40.2	n.a.	n.a.	183.7

a/ Seasonally adjusted by the California Department of Finance.

n.a. Not available

## Coincident Indicators/<sup>a</sup>

		Nonagricultural Employment (Thousands)	Manufacturing Employment (Thousands)	Unemployment Rate (Percent)	Unemployment Avg. Weeks Claimed (Thousands)
2003	Jan	14,437	1,590	6.9	520
	Feb	14,421	1,580	6.9	522
	Mar	14,398	1,572	6.8	521
	Apr	14,392	1,564	6.9	567
	May	14,387	1,556	6.9	543
	Jun	14,381	1,549	6.9	550
	Jul	14,359	1,538	6.9	552
	Aug	14,380	1,540	6.9	528
	Sep	14,368	1,540	6.8	525
	Oct	14,407	1,537	6.9	517
	Nov	14,390	1,535	6.8	509
	Dec	14,391	1,535	6.7	503
2004	Jan	14,426	1,537	6.6	457
	Feb	14,444	1,535	6.5	453
	Mar	14,461	1,534	6.5	444
	Apr	14,473	1,537	6.4	438
	May	14,494	1,537	6.4	416
	Jun	14,496	1,533	6.3	449
	Jul	14,569	1,545	6.2	404
	Aug	14,554	1,535	6.1	420
	Sep	14,552	1,530	6.1	416
	Oct	14,619	1,528	6.0	390
	Nov	14,641	1,526	5.9	402
	Dec	14,631	1,520	5.9	398
2005	Jan	14,648	1,524	5.8	406
	Feb	14,685	1,521	5.6	395
	Mar	14,694	1,516	5.5	388
	Apr	14,735	1,516	5.4	368
	May	14,730	1,511	5.4	362
	Jun	14,740	1,508	5.4	386
	Jul	14,792	1,512	5.3	349
	Aug	14,834	1,509	5.2	366
	Sep	14,864	1,507	5.2	332
	Oct	14,890	1,510	5.2	334
	Nov	14,914	1,510	5.1	340
	Dec	14,919	1,511	5.1	317
2006	Jan	14,936	1,505	4.8	349
	Feb	14,967	1,506	5.0	338
	Mar	14,956	1,505	4.8	n.a.

		Personal Income (\$ millions)	Total Wages & Salaries (\$ millions)	Taxable Sales (\$ millions)
2001	Qtr I	\$1,142,025	\$652,950	\$111,989
	Qtr II	1,134,846	647,680	111,275
	Qtr III	1,132,057	641,413	108,517
	Qtr IV	1,132,288	640,383	109,442
2002	Qtr I	\$1,141,415	\$642,170	\$108,528
	Qtr II	1,148,916	642,227	109,986
	Qtr III	1,147,076	639,686	111,384
	Qtr IV	1,153,456	643,855	110,449
2003	Qtr I	\$1,160,041	\$646,153	\$112,286
	Qtr II	1,176,748	655,808	113,415
	Qtr III	1,190,917	664,879	117,636
	Qtr IV	1,209,356	671,184	116,023
2004	Qtr I	\$1,229,219	\$682,125	\$122,428
	Qtr II	1,248,078	690,233	123,851
	Qtr III	1,262,692	700,387	125,590
	Qtr IV	1,309,235	723,323	127,372
2005	Qtr I	\$1,313,380	\$728,138	\$128,341
	Qtr II	1,329,055	734,113	133,482
	Qtr III	1,352,624	753,518	n.a.
	Qtr IV	1,371,766	762,869	n.a.

a/ Seasonally adjusted by the California Department of Finance with the exception of the nonagricultural and manufacturing employment and the unemployment rate which are seasonally adjusted by the California Employment Development Department.

n.a. Not available

## ECONOMIC INDICATOR CHARTS

Series classification as leading or coincident indicators generally follows that established by the National Bureau of Economic Research. The exceptions to this are manufacturing employment and taxable sales. These series are discussed in the technical note below.

Whenever appropriate, data used in the charts have been seasonally adjusted. The method of seasonal adjustment is the X-12 Arima program. Persons interested in a detailed description of this method are referred to the U.S. Census Bureau's Statistical Research Division.

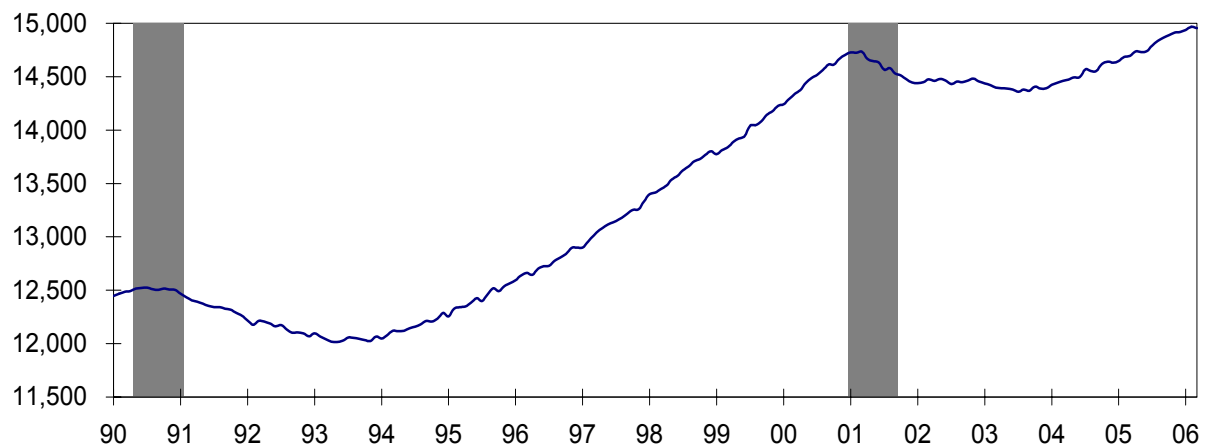
Under the X-12 Arima method, the addition of new data points changes historical seasonal factors. To avoid monthly data changes in the California Economic Indicators it is necessary to "freeze" the seasonally adjusted data through the past year and manually compute current year values from the projected seasonal factors. Thus historical revisions will be incorporated annually.

This series is an addition to the NBER indicator list. It is used here because it appears to show cyclical fluctuations clearly and extends the limited number of series presently available for the State.

Taxable sales are used here as a proxy for retail trade. Data on the latter are not available for California prior to 1964. The taxable series includes sales by both retail and wholesale establishments, and is, therefore, a broad indicator of business activity. It has been classified as a coincident indicator on the basis of fluctuations in the series since 1950. The other indicators shown are for general interest only. They are not directly related to the cyclical indicator series, but are of interest to persons looking at overall economic developments.

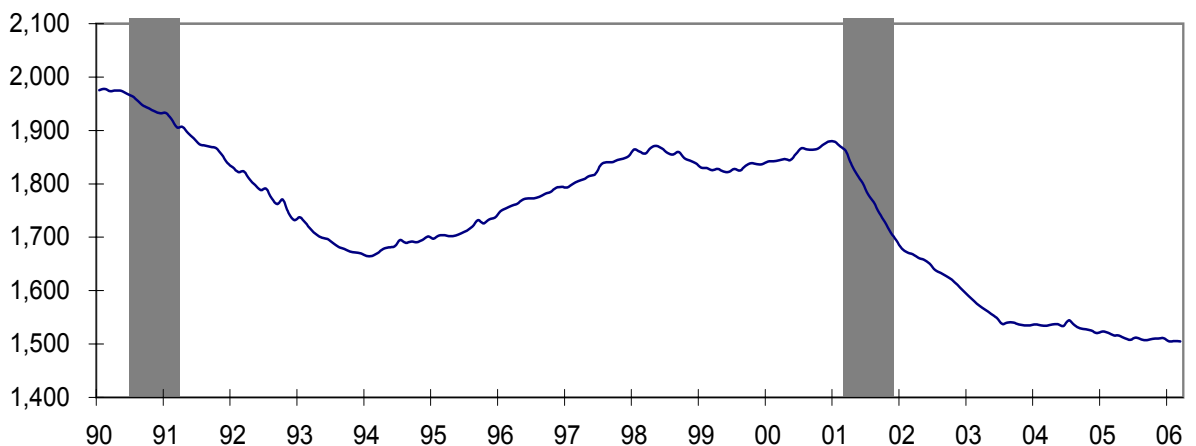
### Nonagricultural Employment

(Thousands,  
Seasonally Adjusted)

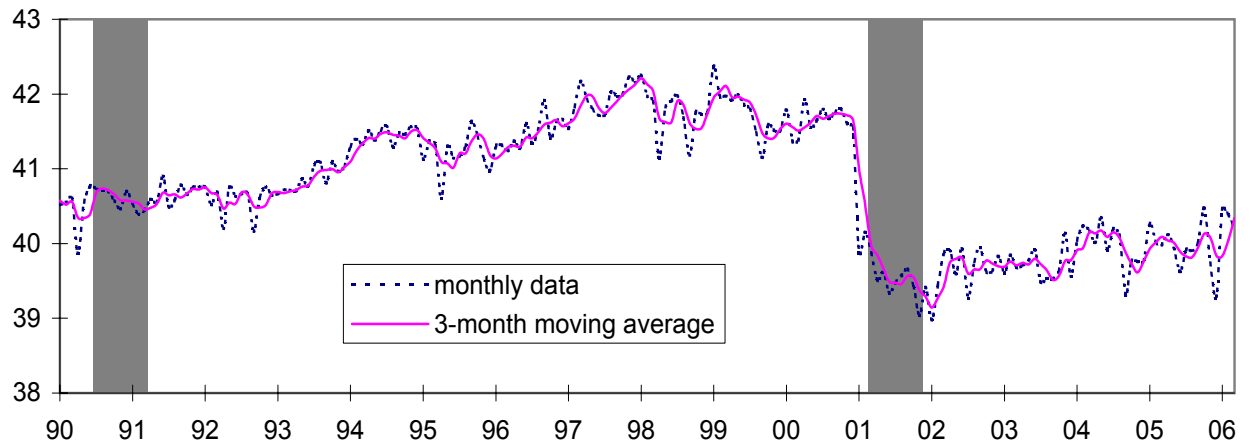


### Manufacturing Employment

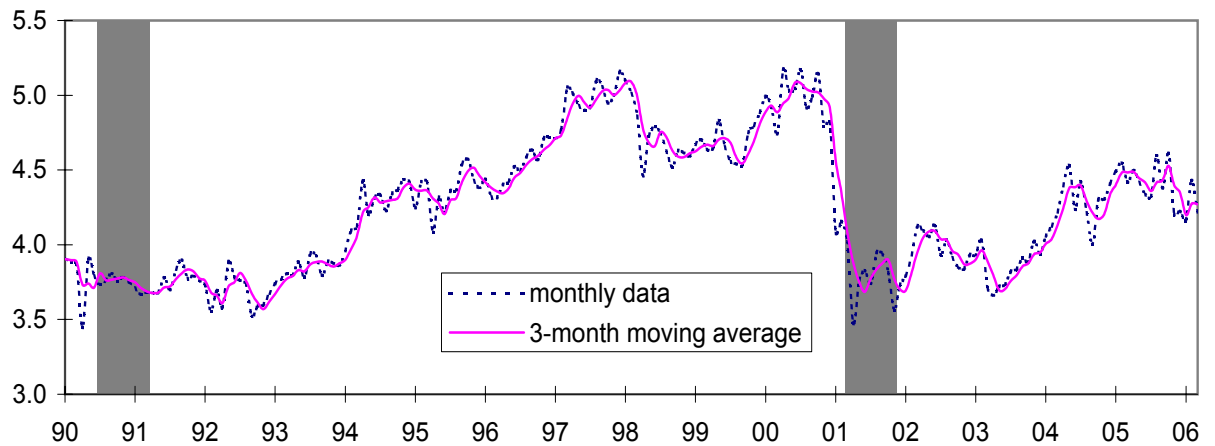
(Thousands,  
Seasonally Adjusted)



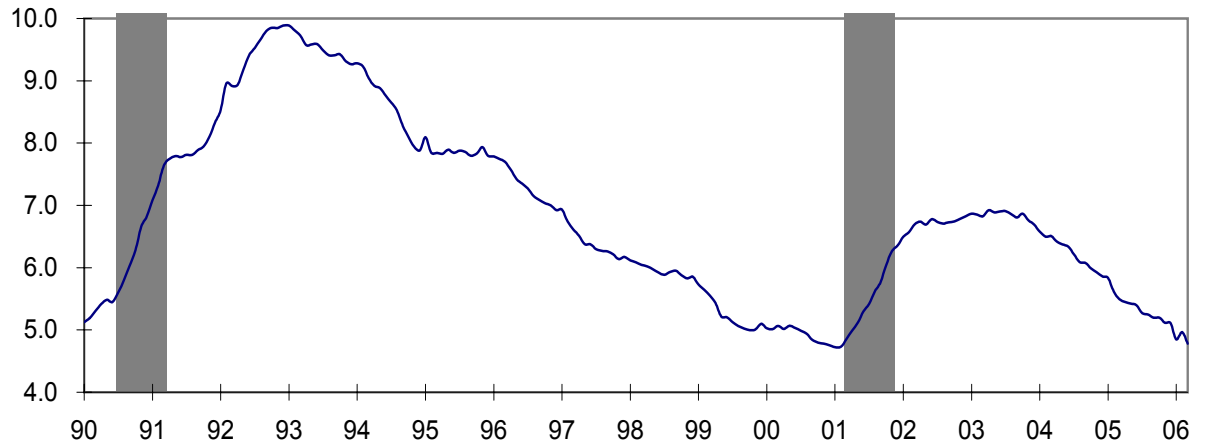
Average  
Weekly Hours,  
Manufacturing  
(Seasonally Adjusted)



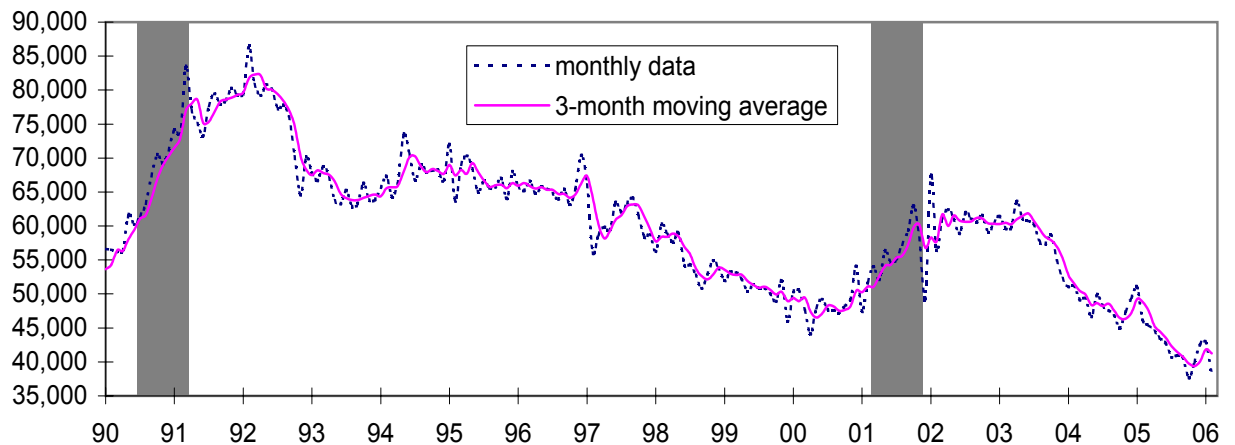
Average  
Overtime Hours,  
Manufacturing  
(Seasonally Adjusted)



Unemployment  
Rate  
(Percent)

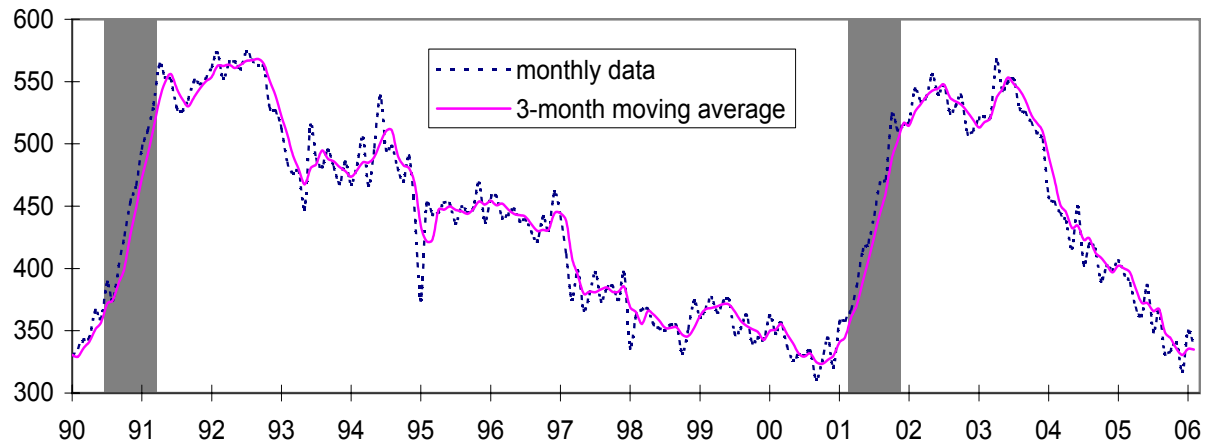


Initial &  
Transitional  
Claims for  
Unemployment  
Insurance  
(Weekly Average,  
Seasonally Adjusted)



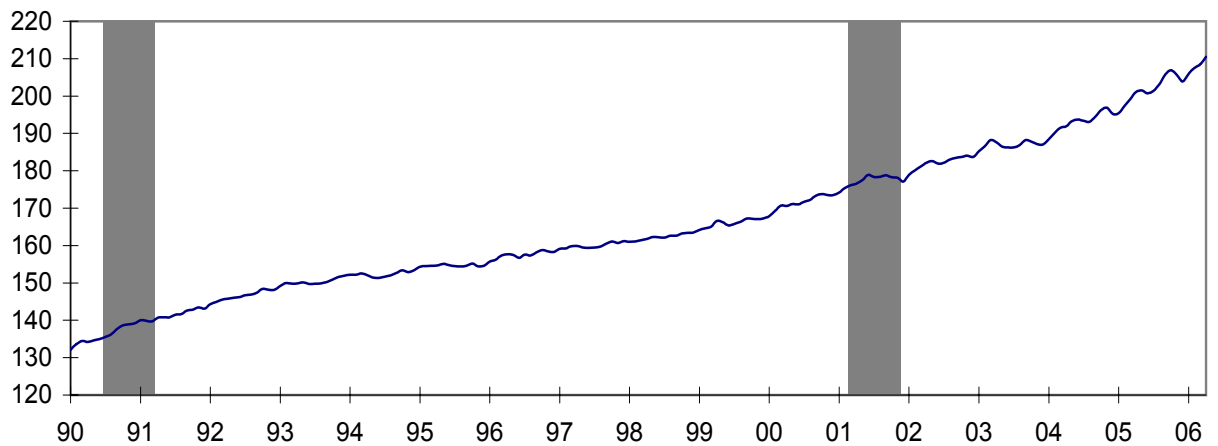
### Unemployment, Average Weeks Claimed

(thousands,  
Seasonally Adjusted)



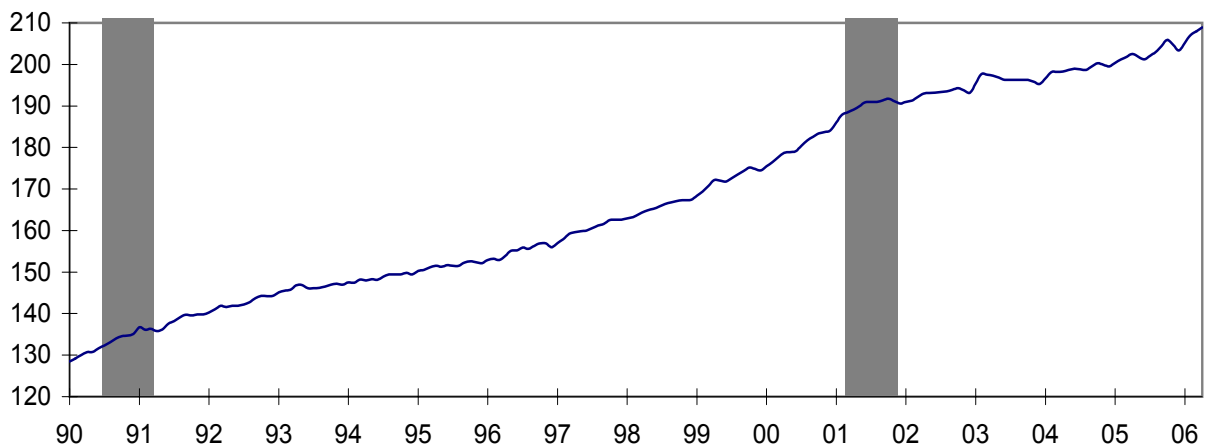
### Consumer Price Index, Los Angeles

(1982-84=100)



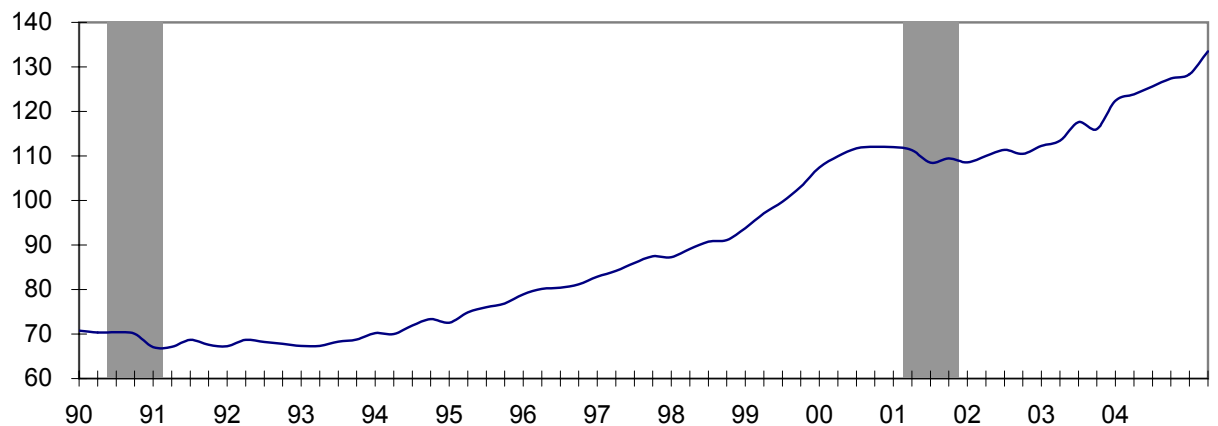
### Consumer Price Index, San Francisco

(1982-84=100)



### Taxable Sales

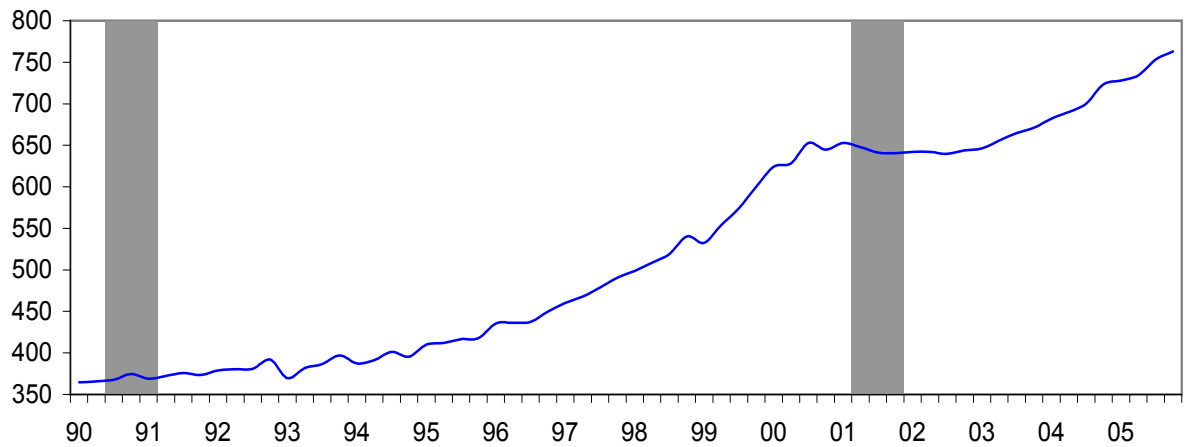
(Dollars in billions,  
Seasonally Adjusted)





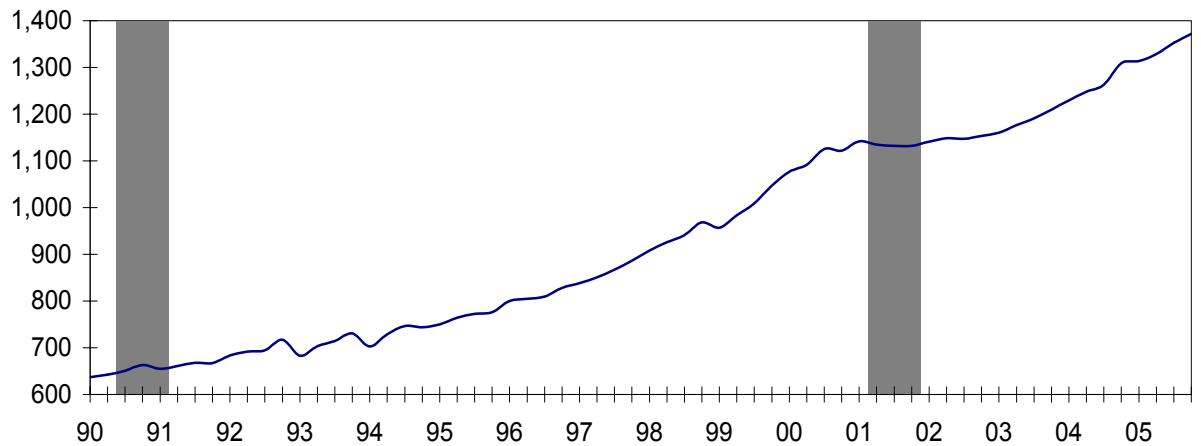
## Wages and Salaries

(Dollars in billions, Seasonally Adjusted)



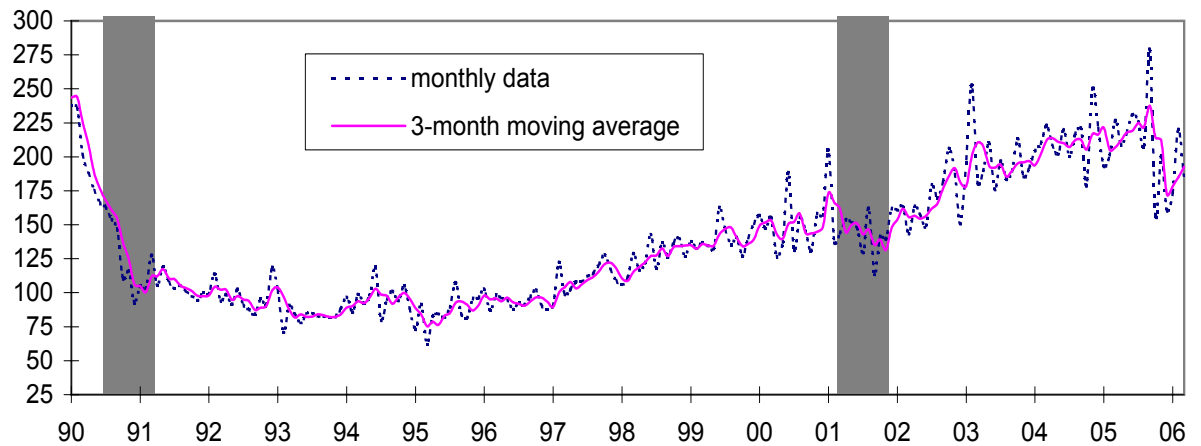
## Personal Income

(Dollars in billions, Seasonally Adjusted)



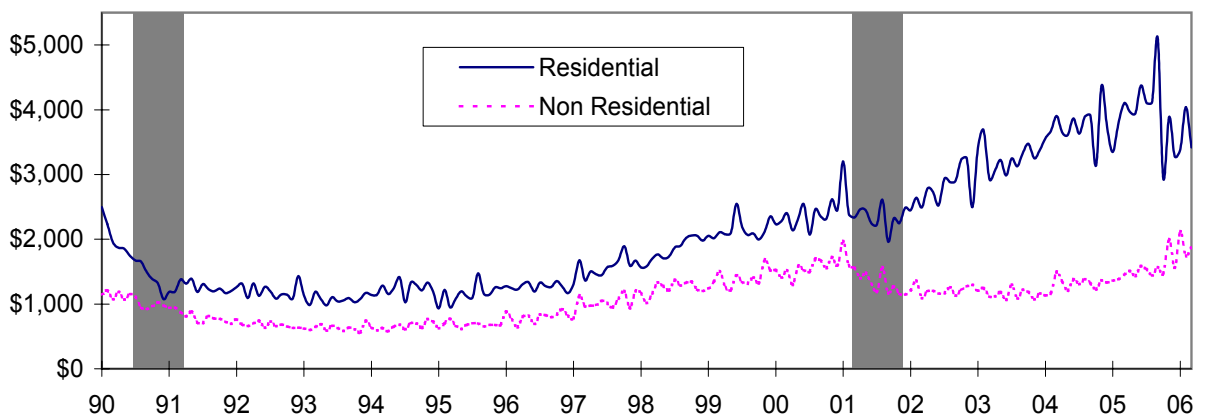
## New Housing Units Authorized By Building Permits

(thousands, Seasonally Adjusted at Annual Rate)

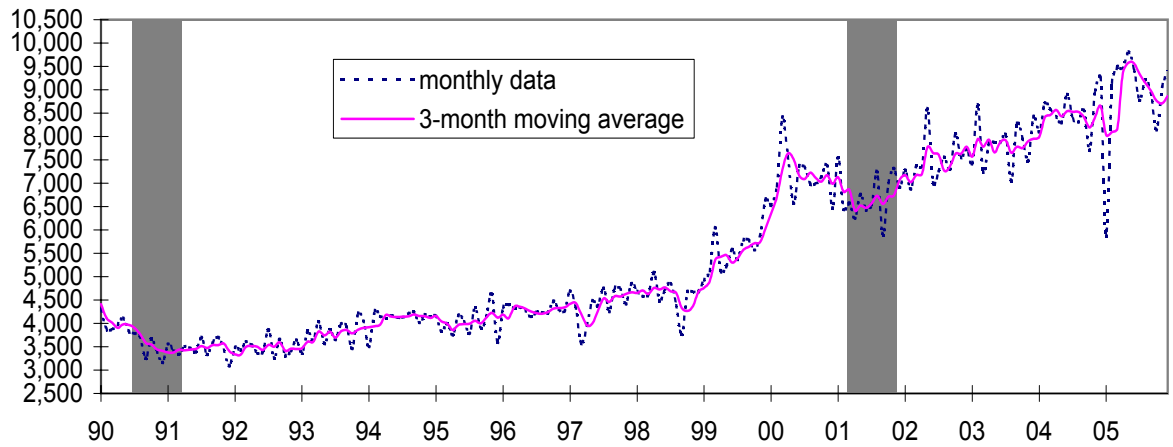


## Residential & Nonresidential Building Permit Valuation

(Dollars in millions, Seasonally Adjusted)



## New Business Incorporations (Seasonally Adjusted)



## ■ CHRONOLOGY

The following summary lists economic, political, and natural developments which have influenced California economic indicators, and may account for unusual movements in the series. Appraisal of the charts will be facilitated in many cases by taking into consideration those factors which may be contributing to temporary directional changes in business activity which are not indicative of significant changes in the economic situation of the State. In addition, major national and international events of general interest have also been included. A similar summary of events dating back to 1956 is available at the Department's internet home page at: [www.dof.ca.gov](http://www.dof.ca.gov)

### 2003

<b>February 10</b>	Moody's lowered California's bond rating to A2 from A1.
<b>February 14–17</b>	A major snowstorm hit the Middle Atlantic and Eastern states.
<b>February 26</b>	Doctors in Hong Kong report the first case of a flu-type virus "Atypical Pneumonia" now more commonly known as Severe Acute Respiratory Syndrome (SARS).
<b>March 20</b>	Operation Iraqi Freedom begins.
<b>April 9</b>	Baghdad falls and Iraqis and American troops topple statue of Saddam Hussein.
<b>April 14</b>	President Bush declares conclusion of major combat operations in Iraq.
<b>June 25</b>	Federal funds rate reduced from 1.25 percent to 1 percent, the lowest rate in 45 years.
<b>June 26</b>	GDP up 1.4 percent in Q1.
<b>July 17</b>	The US recession ended in November 2001, according to NBER.
<b>July 24</b>	S&P lowered California's bond rating from "A" to "BBB".
<b>July 25</b>	United States Treasury begins mailing \$400 per child tax rebate checks.
<b>August 2</b>	Governor Gray Davis signs the 2003-04 state budget bill.
<b>August 4</b>	Moody's lowered California's bond rating from A2 to A3.
<b>August 28</b>	GDP grew at a revised 3.1 percent annual rate in the 2 <sup>nd</sup> quarter.
<b>September 3</b>	Light vehicle sales in the U.S. reach 19.0 million in August, the second best monthly rate ever.
<b>October 21</b>	Wildfires breakout in Southern California, eventually burning 743,000 acres and destroying over 3,500 homes.
<b>October 30</b>	GDP grew by 7.2 percent, its fastest rate since 1984.

<b>December 4</b>	President Bush ends steel tariffs.
<b>December 12</b>	Dow Jones Industrial average closed above 10,000 for the first time since May 24, 2002.
<b>December 13</b>	Saddam Hussein captured by American troops.
<b>December 23</b>	Final report shows GDP grew by 8.2 percent in the third quarter, its fastest rate since 1984.
<b>December 24</b>	U.S. confirms first case of “mad cow” disease.

## 2004

<b>February 10</b>	Unexpected cut in OPEC quota and cold weather contribute to higher oil prices.
<b>February 11</b>	Dow Jones Industrials closed at highest level in more than 2½ years.
<b>March 25</b>	Fourth quarter GDP rose 4.1 percent.
<b>April 30</b>	International oil prices hit a 3½ year high.
<b>May 21</b>	Moody’s raised California’s credit rating from “Baa1” to “A3”.
<b>May 27</b>	First quarter GDP grew at a 4.4 percent annual rate.
<b>June 30</b>	Federal funds rate increased by 25 basis points bringing the rate up to 1.25 percent. It is over four years since the Fed last tightened rates.
<b>August 9</b>	Fitch removes California from Rating Watch Negative.
<b>August 10</b>	Federal funds rate raised from 1.25 percent to 1.50 percent.
<b>August 24</b>	S&P raised California’s credit rating from “BBB” to “A”.
<b>August 27</b>	Second quarter GDP grew at a 2.8 percent annual rate.
<b>Mid-August</b>	Hurricane Charley hits Florida
<b>September</b>	Three powerful hurricanes (Frances, Ivan, and Jeanne) hit Florida and some neighboring states.
<b>September 21</b>	Federal funds rate raised from 1.50 percent to 1.75 percent.
<b>October 29</b>	GDP grew at a 3.7 percent rate in the third quarter.
<b>November 10</b>	Federal funds rate raised from 1.75 percent to 2.00 percent.
<b>December 14</b>	Federal funds rate raised from 2.00 percent to 2.25 percent.
<b>December 22</b>	GDP grew at a 4.0 percent annual rate in the third quarter.
<b>December 26</b>	A magnitude 9.0 earthquake — the largest in 40 years — struck the northern Indonesian island of Sumatra, triggering a tsunami that killed tens of thousands of people in more than 11 countries.

## 2005

<b>January 22-24</b>	Blizzards blanketed large parts of the Northeast.
<b>January 30</b>	Iraq held its first free election in half a century.
<b>February 2</b>	Federal funds rate raised from 2.25 percent to 2.50 percent.
<b>March 22</b>	Federal funds rate raised from 2.50 to 2.75 percent.
<b>March 30</b>	GDP grew at an annual rate of 3.8 percent in the fourth quarter of 2004.
<b>April 28</b>	GDP increased at an annual rate of 3.1 percent in the first quarter of 2005.
<b>May 3</b>	Federal funds rate raised from 2.75 to 3.00 percent
<b>June 29</b>	GDP increased at an upwardly revised 3.8 percent in the first quarter of 2005.

<b>June 30</b>	Federal funds rate raised from 3.00 percent to 3.25 percent.
<b>July 11</b>	Governor Arnold Schwarzenegger signs the 2005-06 state budget bill. Moody's Investor Services and Fitch Ratings upgraded the state's bond ratings.
<b>August 9</b>	Federal funds rate raised from 3.25 percent to 3.50 percent.
<b>August 29</b>	Hurricane Katrina ripped through Louisiana, Mississippi and Alabama causing billions of dollars in damage.
<b>August 31</b>	GDP increased at an annual rate of 3.8 percent in the first quarter and 3.3 percent in the second quarter of 2005.
<b>September 20</b>	Federal funds rate raised from 3.50 percent to 3.75 percent.
<b>October 14</b>	Overall consumer prices rose at the fastest pace in more than 25 years last month.
<b>October 17</b>	The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 goes into effect.
<b>October 24</b>	Hurricane Wilma battered Florida.
<b>November 1</b>	Federal funds rate raised from 3.75 percent to 4.00 percent.
<b>December 13</b>	Federal funds rate raised from 4.00 percent to 4.25 percent.
<b>December 15</b>	CPI posts biggest drop since 1949.
<b>December 21</b>	GDP increased at an annual rate of 4.1 percent in the third quarter of 2005 In the second quarter, GDP increased 3.3 percent.

## 2006

<b>January 31</b>	Federal funds rate raised from 4.25 percent to 4.50 percent. Alan Greenspan steps down after more than 18 years as chairman of the Federal Reserve. Ben Bernanke was sworn in as the new chairman of the Federal Reserve.
<b>February 17</b>	A total of 38,300 new and resale houses and condos were sold in California last month. That's down 27.5 percent from December and down 9.5 percent from January 2005. Last month's sales count was the lowest since January 2002. The median price paid for a home last month was \$452,000. That's down 1.3 percent from December and up 13.0 percent from January 2005. Last month's year-over-year increase was the lowest since a 12.4 percent increase in March 2003 when the median reached \$290,000. Prices increased at their fastest rate in June 2004 when the \$382,000 median was up 23.2 percent from the same month a year before.
<b>February 28</b>	GDP increased at an annual rate of 1.6 percent in the fourth quarter of 2005, posting the smallest gain in three years.
<b>March 28</b>	Federal funds rate raised from 4.50 percent to 4.75 percent. This is the fifteenth consecutive increase since June 2004 and the first since Ben Bernanke took over as chairman of the Federal Reserve.